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UNCLAS SECTION 01 OF 02 MANAMA 000511

SIPDIS

DEPT FOR EB/TPP/MTA, EB/TPP/BTA AND NEA/ARP  
DEPT PASS USTR JBUNTIN  
COMMERCE FOR CLOUSTAUNAU

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SUBJECT: DETRACTIONS FROM COMPETITIVENESS: BAHRAIN ON THE  
VERGE OF FTA

REF: A. MANAMA 496

1B. 2003 COUNTRY COMMERCIAL GUIDE: BAHRAIN

11. SUMMARY AND COMMENT: Through the TIFA and FTA negotiation processes, Bahrain has been making great strides to improve its business and investment climate, improving regulatory standards in banking and finance and establishing new laws to protect IPR and enhance transparency. Nonetheless, Bahrain is not yet an ideal destination for business investment: a complex business formation procedure, difficulty in obtaining work visas for non-Bahrainis, and relative scarcity of land, water and natural gas hinder investment. If Bahrain can address these problems, it will benefit from the duty-advantages and investment-climate enhancements of our bilateral FTA. END SUMMARY AND COMMENT.

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BUSINESS REGISTRATION RED TAPE  
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12. The Ministry of Commerce proudly launched electronic company registration over a year ago. And while this part of the registration process is transparent, registering a company requires industry-specific pre-approvals and in some cases, also post-registration approvals from other ministries before business can begin. Unfortunately, acquiring these approvals is not always transparent and generally must be done in person. This adds time and substantial inconvenience to the registration process and discourages businesses from establishing here instead of elsewhere in the Gulf. (See Country Commercial Guide for a flow-chart outlining the company registration process).

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BAHRAINIZATION  
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13. "Bahrainization"--industry-specific quotas on the percentage of Bahraini citizens a company employs--is a topic that can heat up any discussion among members of the business community in Bahrain. A salon owner bemoans lost business and falling profits because she has to pay her Thai hairstylists to stay home for a week every month or so while she secures new work visas. A construction equipment sales manager complains that he has to fight the Labor Ministry and then wait months to get a visa to hire an Egyptian marketing director. The fundamental complaint among businesses is the same: when qualified Bahraini workers are unavailable, the government nevertheless makes it difficult to hire from outside the country. This policy is designed to reduce unemployment among Bahraini nationals (officially 15 percent) by putting the onus on companies to hire local staff. The problem is that the quotas are not linked to the availability of qualified Bahraini workers in a given industry, and it is up to businesses to rectify the mismatch. To circumvent this broken system, many companies hire Bahrainis on the books only, because it is worth it to them to pay a few extra employees to be able to hire skilled foreigners. Bahrainization is a highly charged political issue, pitting even socially-minded businessmen against the rolls of unemployed, but a fix needs to be found.

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SCARCE NATURAL RESOURCES  
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14. Land: Scarcity of land in Bahrain is a real impediment to attracting new industry to the small island nation of Bahrain, and hinders expansion of those industries already situated here, a Shura council member and businessman told ECONOFF April 10. A Bahrain Financial Harbor board member told ECONOFF April 10 that land prices in Bahrain have gone so high that it is now actually cheaper to create "reclaimed" land by dredging, as the Financial Harbor project is doing, than to purchase existing parcels. Bahrain Business Incubator Center chairman told ECONOFF March 20 that the government of Bahrain is able to help its incubatees rent industrially zoned land at reasonable prices in order to establish independently, but this bonus can last only as long as the Government still has land available. In addition,

non-GCC citizens can only purchase land in designated areas of the island (see Country Commercial Guide).

15. Power and water: The Government of Bahrain currently subsidizes consumer cost of electricity 30 percent and water 55-60 percent. Bahrain's power and water outputs meet current demand, but are insufficient to meet future needs or to support anticipated industrial growth (see reftel). An Ernst and Young study commissioned in 2003 indicated that Bahrain would be in urgent need of a new power generating facility by 2006. Fresh water is scarce on this desert island, and the underground aquifer that currently supplies approximately one third of Bahrain's water, will not be able to produce more, so additional desalinization plants (typically coupled with power plants) will be necessary. Bahrain will need natural gas, too. Natural gas fueling power generating facilities now is a by-product of refining on the island. However, this supply is too limited. Therefore Bahrain has begun negotiations with Qatar over the construction of a gas pipeline and a long-term purchasing agreement. ECONOFF learned April 5 that this deal was not moving forward as quickly as the Bahrainis had hoped. Until a steady gas supply can be secured, concerns over power and water sufficiencies will continue.

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